UBAM – GLOBAL RESPONSIBLE CONVERTIBLE BOND

Quarterly Comment

For Professional Investors in Switzerland or Professional Investors as defined by the relevant laws. The classification of the fund(s) as per the Sustainable Finance Disclosure Regulation (SFDR) is available on ubp.com or in the latest prospectus.

Market Comment

- While January benefited from a strong risk on momentum, the trend has started to reverse in February after higher than expected inflation numbers and central banks' officials' comments. In the beginning of March markets moved into a risk-off mode on the back of Silicon Valley Bank failure and the loss of confidence crisis impacting Credit Suisse. Interest rate volatility moved to a level lastly saw in 2008 before falling back. Central banks have continued to raise their respective policy rates despite these events in the banking sector The Fed and the ECB rose their policy rates by 25bps and 50bps respectively. Their main focus is still inflation which hasn't fallen enough. They also reiterated that future decisions regarding their policy will be data driven, therefore economic data release will be key in the coming adjustments. Despite a tumultuous month of March, risky asset ended the quarter higher. However, with renewed recession risk, the long end of yield curves have fallen, the US 10-year rate fell by 41bps to 3.46% over the quarter. Despite the return of volatility during March, High Yield credit spreads tighten during Q1 down by 21bps.
- Despite the volatility over the month of March, major equity markets still delivered positive performances over the first quarter of the year and global equities ended the quarter up 7.7% (MSCI World TR). In the US, the S&P 500 index increased by 7.5% quarter-on-quarter; cross-Atlantic, the Stoxx Europe 600 index was up 10.5% q/q and the Nikkei 225 index also ended the quarter in positive territory, up 8.5% q/q (all performance expressed in local currencies). In terms of investment styles, there was an outperformance of the Growth segment over the Value (9.2% q/q for the S&P Growth index, 4.6% ahead of the S&P Value index). US Quality small cap lagged with the Russell 2000 Quality moving only 2.5% higher.
- Being up 3.9%, convertible bonds exhibited an encouraging behavior showing its capacity to both rally when market environment improves and to mitigate downside risk.
- Primary market confirmed the rebound seen the last quarter of 2022 as global markets introduced close to $20 billion of convertible bonds during the first quarter of 2023. The US contributing $12.9bn, Europe $4.7bn and Asia $1.8bn and Japan $0.3bn.

Performance Review

- Global convertible bonds (represented by the Refinitiv Global Convertible Bond index hedged in Euro, "the index") returned 3.9% q/q. The UBAM – Global Responsible Convertible Bond (IC EUR share class) was below with performance of 0.6% in Q1. Region-wise, most of the performance has been driven by our investment in Europe. In terms of sectors, the performance has been driven by Information Technology and Materials, while Utilities. Healthcare, Consumer Discretionary, Utilities and Health Care were the main detractors to the strategy's performance. At issuer level, top absolute contributors in Q1 include STMicrolectronics (Europe Technology), Booking (US Consumer Discretionary) and Amadeus (Europe Consumer Discretionary). Main detractors were Akamai (US Technology), Etsy (US Consumer Discretionary) and Halozyme (US Healthcare).

All performance figures are given net of fees. Past performance is not a guide to current or future returns. See full disclaimer at the end of the document.

Portfolio Activity

- At the end of March, the average equity sensitivity of UBAM – Global Responsible Convertible Bond stands at 36.1% (+1.5pts q/q), -0.9pts below its index. The strategy's interest rate sensitivity remains low, at 1.7 for a 3.0-year duration. The average credit spread of the portfolio closed at 223bps versus 381bps for the index, reflecting the quality bias inherent to our philosophy.
- From a geographical standpoint, the fund is primarily exposed to equity markets through investments in the US (22.3%). Investments in Europe account for 12.8% and Asia and Japan for 1.1%. Relative to the index, the portfolio exhibits an overweight stance to Europe (+6.4pts equity sensitivity) while it is slightly less exposed to the US (-1.5pts) and Asian (-1.0) markets.
- Supported by a busy primary market we initiated several new positions that are in line with our Quality positioning. On the European market we participated in two new issues. We participated in a first-time issue from Spie in the convertible bond market, with a convert offering a 2.0% coupon and 2028 maturity. This is a good example of issuer leveraging on the lower cost of debt when issuing convertible bonds when compared to straight bonds. You'll find details regarding Spie in the next page. We initiated the Wendel exchangeable into Bureau Veritas 2.625% 2027. Bureau Veritas is a world leader in testing, inspection and certification with the aim of becoming the reference regarding ESG solutions. We made an arbitrage in our position in ON Semiconductor with a maturity of 2027 towards the new 2029 issue. In the semi-conductor space, we also sold STMicroelectronics 2025 to buy 2027 issue on the back of the upcoming call on the convertible bond with the shorter maturity. This came with the reduction of our exposures to healthcare names such as Jazz Pharmaceuticals, and Conmed. We reduced our exposure to Booking given the high delta of the convertible bond and strengthen Accor to maintain an exposure to the travel industry. We also reduced our position in Akamai, whose strategic shift towards cloud computing is proving to be riskier than their historical data distribution and cybersecurity segments.

Outlook

- The January outperformance from low-quality names was pricing excessive optimism and was not justified by the current economic environment. In the foreseeable future inflation should stay above central bank target and higher than experienced in the previous decade. Although economic data suggests that the overall slowdown could be smaller than previously anticipated, 2023 is still likely to be a challenging year for corporates. However, with global inflation pressure easing and rate hikes slowing, the factors holding back consumer demand and corporate earnings should fade throughout the year. That being said we still expect dispersion to be particularly high in the equity markets and we believe Quality is the right place to be invested thanks to intrinsic characteristics: Pricing power, healthy balance sheet, robust business models and clear visibility in earnings growth.
- Recent market events have been a good reminder that uncertainty is still very high, and that markets are fragile. In this context convertible bonds constitute an attractive way to maintain equity exposure whilst containing overall volatility. Especially after last year's reset, convertibles bonds with renewed profiles (convertible bonds moved towards "bond-like" providing better downside protection) have the potential to deliver strong risk-adjusted returns over the medium-term.
- Convertible bonds underlying equities are not expensive anymore and yield is back in the convertible bond universe. As a result, the outlook for convertible bonds is positive thanks to restored multiple performance drivers: underlying equity upside potential, yields and credit.

SRI Comment & Indicators

- **Holding comment: Focus on Spie, Engineering Services**
- On 10 January 2023, Spie placed a €400m convertible due to 2028 with a coupon of 2.0% subject to some Sustainability Performance Targets. Spie will be required to pay one-off penalties if Sustainability Performance Targets attached to the convertible are missed.
- Spie is a leading European player in multi-technical engineering services. The company provides electrical, mechanical, and HVAC engineering, as well as transportation infrastructure, energy, telecom, and network services. It operates primarily in Europe through a network of some 400 branches in an environment that is being shaped by the energy transition and digital transformation major trends. Two-thirds of Spie’s services provide solutions for the energy transition, according to the Net Environmental Contribution standards. According to the European Taxonomy standards, nearly 42% of the Group’s production makes a substantial contribution to mitigating climate change.
- The company is a member of the United Nations Global Compact since 2003. Spie has formalised its CSR policy around three objectives in 2021: (1) Environment. 50% of sales aligned with the EU taxonomy, rising from 42% at end-2021, fueled by the superior growth of energy transition services as well as bolt-on M&A in these fields. A 25% decrease in scope 1 & 2 emissions (vs. 2019) coming mostly from the electrification of the vehicles fleet (35% by 2025), car-sharing, and improved energy efficiency of Spie’s buildings; (2) Social. A 50% drop in severe accidents (vs. 2019) through enhanced staff prevention, health & safety programmes, a better involvement of subcontractors and continued management exemplarity. 20% of women in senior management position versus 2020 (16%) through internal promotion, mentoring programmes, school-relations policy, and integration of women’s profiles in shortlists for management position (3) Supply Chain. 67% of procurement made with suppliers having set ambitious carbon footprint reduction targets, which seems to be the most challenging target as c. 17% come from small-sized companies.
- Spie is conducting efforts to mitigate its direct and indirect environmental impact. The company aims to cut scope 1+2 absolute emissions from 2019 to 2025 by 25%, equivalent to a 4.2% annual reduction. In the past 2 years, Scope 1+2 emissions decreased annually in absolute and in term of intensity. The company’s short-term targets for reducing Scope 1+2 contribute to a 1.69°C temperature increase but mid- and long-terms stand above a 3.20°C temperature increase. In regards, to the scope 3 emissions, the company commits that 67% of its suppliers by emissions covering purchased goods and services, capital goods, fuel and energy related activities and waste generated in operations will have science-based targets by 2025.
- As multi-technical engineering services, Spie’s major social asset is tied to employees. The group employs +45,800 people. Practices are being assessed through programs in place to recruit and retain employees (88% permanent contracts, 80% unionized, high detention of group's capital by employee) and health & safety issues management. Electrical risks, road risks, risks related to working at height and risks related to lifting activities are the main sources of severe accidents at Spie. The company implemented safety management systems which are certified under recognized standards such as ISO 45001, VCA, and MASE. Spie implemented reduction targets on number of severe accident -> 50% by 2025 compared to 2019.
- Looking at governance, Spie’s board of directors has been headed by Gauthier Louette since 2010, who has also been CEO since 2003, and is made up of 11 members: six independent members, five women, and three employee representatives. The employees are the biggest shareholders of the company. The CEO has no link with the two biggest non-employee shareholders. The company displays average accounting governance as the audit committee lacks independence. Only 50.0% of the audit committee members are independent when ideally 100% of members should be independent. Pay practices incorporate sustainability performance criteria into the incentive scheme.

Sources: UBP, MSCI ESG Research.

Extra-financial performance indicators (March 31, 2023)[1]

	Fund	Index[2]
Weighted average Carbon Intensity (tons CO2e / $M Sales)	58	298
Exposure to fossil fuel reserves (%)	0.0	4.1
Diversity program (%)	69.9	52.4
Female directors (%)	35.9	29.3
Board independency (%)	79.9	74.1
Global Compact norm violation exposure (%)	0.0	0.4
Labor norm violation exposure (%)	0.0	0.2

[1]Source: @ 2022 MSCI ESG Research LLC (see important disclaimer on page 4). [2]Refinitiv Global Hedged Convertible Bond Index (EUR).

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